LOW INCOME HOUSING TAX CREDIT PROGRAMS
QUALIFIED ALLOCATION PLAN

The federal low-income housing tax credit program was established by Section 252 of the Tax Reform Act of 1986 and was codified as Section 42 of the Internal Revenue Code of 1986, as amended (IRC Section 42). The Revenue Reconciliation Act of 1989 amended IRC Section 42 by adding Section 42(m) that requires allocating agencies to allocate low income housing tax credits pursuant to a Qualified Allocation Plan (QAP or Plan). California Health and Safety Code Section 50199.10 designates the Tax Credit Allocation Committee (TCAC or Committee) as the state agency responsible for implementing the federal and state low income housing tax credit (the Credit) programs in California. The specific provisions of the Revenue Reconciliation Act of 1989 (the Act of 1989), the modifications enacted by the Revenue Reconciliation Act of 1990, the Revenue Reconciliation Act of 1991 and the Revenue Reconciliation Act of 1993 regarding qualified allocation plans, are set forth below in subsections of IRC Section 42(m)(1):

(B) QUALIFIED ALLOCATION PLAN--For purposes of this paragraph, the term 'qualified allocation plan' means any plan--

- (i) which sets forth selection criteria to be used to determine housing priorities of the housing credit agency which are appropriate to local conditions,
- (ii) which also gives preference in allocating housing credit dollar amounts among selected projects to--
  - (I) projects serving the lowest income tenants, and
  - (II) projects obligated to serve qualified tenants for the longest periods, and
- (iii) which provides a procedure that the agency (or an agent or other private contractor of such agency) will follow in monitoring for noncompliance with the provisions of this section and in notifying the Internal Revenue Service of noncompliance with the provisions of this section which such agency becomes aware of.

(C) CERTAIN SELECTION CRITERIA MUST BE USED--The selection criteria set forth in a qualified allocation plan must include--

- (i) project location,
- (ii) housing needs characteristics,
- (iii) project characteristics,
- (iv) sponsor characteristics,
- (v) participation of local tax-exempt organizations,
- (vi) tenant populations with special housing needs, and
- (vii) public housing waiting lists.

(D) APPLICATION TO BOND FINANCED PROJECTS--Subsection (h)(4) shall not apply to any project unless the project satisfies the requirements for allocation of a housing credit dollar amount under the qualified allocation plan applicable to the area in which the project is located.

CALIFORNIA'S HOUSING NEEDS

California's rental housing problems are diverse, severe, and worsening. On a statewide basis, California needs many more new rental housing units than are being produced annually. Although the state's housing stock is relatively young (in 1990 only 37% of the stock was more than 31 years old), it is aging and deteriorating. By 1990, less-than-ten-year-old-housing had declined to 22.9% of all units, down from 26.2% in 1980. The average household size for renter households is 2.7 people, just under the average household size for all households (2.8).

The majority of Californians live in decent housing which they can afford. However, this observation obscures the serious housing problems still encountered daily by many residents. Several housing issues deserve special attention, including affordability, availability, condition of the housing stock, and the special needs of specific renter groups within the general population. Overall, affordability problems are the most common housing problem faced by Californians.

Since low income housing tax credits are available only for rental housing, this section presents findings and analysis related to the condition, supply and cost of rental housing. In California, 44% of all households are renters. This is a considerably higher percentage than the national rate of 36%. The data presented below do not serve as a comprehensive statement of California's housing problems. The purpose of the data is to assist the Committee in establishing priorities for award of Credits in our state.

Affordability: Although California is expected to experience an expanding economy throughout the decade, lower overall wages associated with the expanding service and information sectors of the economy portend an increasing housing affordability problem. This is expected particularly in areas already experiencing housing shortages, where increased demand for apartments drives up rents.

It is generally accepted that households who have to pay more than 30% of their income for rent are paying too much. By paying a disproportionately higher share for housing, these households have insufficient funds available for food, medical care, transportation and education. In its 1995 Consolidated Plan, the Department of Housing and Community Development (HCD) reported that more than 2.27 million low-income households pay more than 30 percent of their income for housing (21% of all households). More than 79.5% of all very low-income renters (i.e. renters with incomes at or below 50% of the area median income) paid more than 35% of their incomes for rent.

The Committee has adopted as its base measurement of affordable rental housing need in California the proportion of renter households paying 35% or more of income for rent. The following tables illustrate the depth of the affordability problem and the rationale for the base measurement:

RENTER HOUSEHOLD DATA: 1990

(Source: 1990 U.S. Census)

	Number of Units	Percentage of Renter Occupied
Renter Occupied	4,606,307	100.0%
35% Rent Burden	1,657,803	36.0%

Over one-third of California’s renter households pay more than 35% of their income to rent.

35% OR MORE OF INCOME SPENT FOR RENT
BY HOUSEHOLD INCOME
(Source: 1990 U.S. Census & 1995/96 HCD Consolidated Plan)

	Number	Percentage
Less than $10,000	615,032	37%
$10,000 to $19,999	662,612	40%
$20,000 to $34,999	328,124	20%
$35,000 or More	52,035	3%
Total	1,657,803	100%

The median income of all California households in 1990 was $35,798. For renter households the median income was $25,500, nearly half that of homeowners. Sixty percent of households with rent burdens of 35% or more earn between $10,000 and $35,000 annually, and another 37% earn less than $10,000 annually, with very few earning over $35,000 annually. (California's median income has increased less than five percent in the first half of the 1990s.)

The QAP is designed to target residents earning between approximately 40% to 56% of median income. This earnings band appears appropriate, since 78% of households with incomes ranging from 31% to 50% of area median income are paying 30% or more of their income to rent.

RENT BURDEN BY MEDIAN INCOME GROUP: 1990
Source: 1995/96 HCD Consolidated Plan

Median Family Income	0% - 30%	31% - 50%	51% - 80%
30% or More of Income to Rent	80%	78%	53%

Availability: As California's economy grows, so does the demand for housing. In January 1993, the State Department of Finance reported that between 1980 and 1992, population in the state increased by 31%. However, in the same period, the number of housing units in the state increased by only 24%. In its Consolidated Plan, HCD reports an average of at least 302,000 housing units need to be built annually through 2000 to accommodate California's population growth. Unfortunately, there has been a dramatic drop in the production of multi-family rental units over the past ten years. The production of multi-family units peaked in 1986 when 168,000 units were built. By 1993, the annual production had dropped to about 14,475 units, about one-fourth of 1990 production of 60,494 units. In 1996, multi-family unit production has continued to show signs of recovery, with estimated construction of approximately 18,000 units.

Low vacancy rates have long been viewed as evidence of housing shortages. Vacancy rates for rental housing vary for market areas around the state and not all markets in California suffer from low vacancy rates. HCD reports that a healthy vacancy rate runs around 6% to 7% of all units. A statewide total vacancy rate of 6% to 7% usually ensures sufficient numbers of available units for rent or purchase. HCD's data show a decline in both the statewide and selected market vacancy rates in the period from 1980 to 1990. In 1990, HCD reports the statewide market vacancy rate was 5.9%, but this rate is not uniform throughout the state. Counties with serious housing shortages, as reflected by low (less than 5%) rental vacancy rates, are as follows.

Rental Housing Vacancy Rates Below 5%
1990

Metropolitan Counties		Non-metropolitan Counties	
Butte	4.0	Colusa	4.7
Marin	4.0	Glenn	3.2
Merced	3.3	Humboldt	4.8
Monterey	3.8	Inyo	4.9
Napa	4.8	Madera	3.3
San Joaquin	4.5	San Benito	4.3
San Mateo	4.3	Trinity	1.5
Santa Clara	4.5		
Santa Cruz	4.3		
Shasta	4.0		
Stanislaus	4.8		
Sutter	4.4		
Tulare	4.1		
Ventura	4.9		
Yolo	3.6		
Yuba	4.7		

Source: U.S. Census, 1990; California Consolidated Plan, Department of Housing and Community Development, May 1995.

Threatening to exacerbate the affordable housing shortage is the imminent conversion of subsidized low-income rental units, assisted by the U. S. Department of Housing and Urban Development (HUD) to market-rate units. Most of the subsidies were conditioned on restricting occupancy in the housing to low-income residents for a period of from 20 to 30 years. HUD estimates that as many as 500 California projects with 43,000 units may be eligible for prepayment. Many of these projects are eligible for conversion. While Congress mandated in 1990 that HUD offer incentives to owners to maintain this housing for low-income families, Congress is currently considering significant program modifications that may result in market-rate conversion of several thousand units.

Condition of the Housing Stock: Another aspect of California's housing problem is the condition of the stock. In its Consolidated Plan, HCD estimates that a total of 1.45 million units need to be replaced or rehabilitated, of which about 60-65% are rental housing units. The Department also reports that the size of the problem is virtually unchanged from 1981. Moreover, lower income households are more likely to be occupying the substandard units than households with greater incomes.

Special Needs of Specific Renter Groups: HCD's Consolidated Plan identifies numerous groups which face specific housing problems. These include, among others, the homeless, large families, seniors, physically handicapped, people with developmental disabilities, farm workers, and female-headed households.

Lack of sufficient incomes to afford adequate housing is the key problem common to all these groups. However, the lack of suitable housing, or the unavailability of a variety of unit sizes and housing types, is a problem faced by several of these groups. The private sector, unassisted by government, does not produce sufficient numbers of apartments containing three or more bedrooms to accommodate families with five or more members. Two-thirds of all overcrowded households are renter households, and most of these are large households which cannot locate suitable and affordable housing.

The housing difficulties faced by the homeless population, or others with extremely low incomes, perhaps are the most severe. Producing housing which can be afforded by persons who receive, for example, only general assistance payments, is virtually impossible even with government subsidies. Single Room Occupancy (SRO) housing, offering very low rents, comes closer than other housing types to serving those whose only income is general assistance. Clearly, SROs are not suitable for all low-income persons. Still, SROs are currently serving many singles and some couples, of all ages, who would otherwise likely be homeless. Preservation of existing SROs needing rehabilitation is of critical importance. Construction of new SROs is also necessary in some areas of the state.

Conclusion: Many California renters are forced to pay too high a percentage of their limited incomes for housing. Some are forced to live in overcrowded conditions either because they cannot afford appropriately sized units or a shortage of larger units exists. Very low income renter households more often than other households live in substandard units. Special renter populations have special housing needs which the private sector, without governmental assistance, does not adequately serve. Given these conclusions, one of the key objectives of the Credit programs is to encourage development of a variety of housing types at affordable rents to appropriately serve each of these populations.

GENERAL OBJECTIVES OF THE PLAN

Neither the federal nor the state Credit programs are entitlement programs. Both the federal government and the state government have established annual ceilings on the dollar amount of such Credits which may be allocated to qualifying projects, and detailed eligibility standards and priority uses for available Credits. Credits are awarded following a competitive process. In furtherance of the statutory provisions affecting the Credit programs, the Committee has established the following objectives for allocating Credits in California.

- To maximize the number of affordable rental housing units added to the existing housing stock;
- To allocate Credits to rental housing developments which provide the greatest overall public benefits;
- To allocate all Credits;
- To encourage development and preservation of appropriate rental housing types for households which have difficulty finding suitable and affordable rental housing in the private marketplace without governmental assistance;
- To enable substantial rehabilitation of existing rental housing in order to prevent losses to the existing supply of affordable apartments;
- To prevent the loss from the existing stock of low income rental housing of those apartments under expiring contracts with federal agencies or subject to prepayment which, without the allocation of Credits, would be converted to market rate apartments;
- To maximize the utilization of Credits;
- To provide an equitable distribution of Credits across the state; and
- To provide opportunities for participation in the Credit programs to all qualified sponsors of low income rental housing.

SPECIFIC OBJECTIVES OF THE PLAN

In addition, in allocating Credits, the Committee aims to achieve specific federal and state objectives. These are:

- To use Credits in connection with rental housing "projects serving the lowest income tenants";
- To use Credits in connection with rental housing "projects obligated to serve qualified tenants for the longest periods";
- To distribute Credit by apportioning federal tax credit among proposals targeting low-income populations -- including large families, homeless persons, persons with special needs, and senior citizens;
- To hold competition among only those projects considered sound investments of public funds;
- To expend public funds in the minimum amount necessary to achieve program goals; and,
- To administer the Credit program in a manner that encourages timely project completion and occupancy.

Further, the Committee intends to make every effort to coordinate with other state housing agencies, including HCD and the California Housing Finance Agency (CHFA) and local housing agencies. Besides seeking to synchronize administrative requirements, such as application cycles and submission requirements, the Committee also seeks to maximize the use of funding available from HCD, CHFA and local agencies.

PROGRAM ADMINISTRATION

The Committee has adopted regulations to implement the federal and state low-income housing tax credit programs. The regulations, adopted as California Code of Regulations, Title 4, Division 17, Sections 10300 through 10337, are incorporated by reference in full with respect to the Qualified Allocation Plan.

AMENDMENT OF PLAN

This Plan may be modified by the Committee from time to time through formal modifications to Committee regulations, following consideration of comments received at a properly noticed public hearing. After such hearing, this Plan may be amended by the Committee at a properly noticed Committee meeting at which time such amendments may be considered and approved or disapproved. Any such amendments approved will take effect immediately upon adoption by the Committee and approval by the Governor, or such later time as may be specified in a Committee resolution.